

# An Empirical Investigation of Multinational Firms' Compliance with International Accounting Standards

Samir M. El-Gazzar, Philip M. Finn and Rudy Jacob

Pace University, New York, NY, USA

**Key Words:** International Accounting Standards; Cross-border trade; Harmonization; Voluntary disclosure

***Abstract:** Over the years, the number of firms acknowledging adherence to International Accounting Standards (IAS) in the presentation of their financial statements has increased steadily. Since adherence to IAS is not mandatory, the questions are who are these firms, what are their characteristics, and why are they voluntarily complying with IAS. This study examines the underlying motivations and characteristics of firms complying with IAS. This examination is of special interest to the International Accounting Standards Committee (IASC) for assessing the merits of mandating IAS by multinational firms. It also helps accounting researchers in understanding the disclosure behavior of multinationals. Our results indicate that the magnitude of a firm's foreign operations, its financing policy, membership of certain geographical and trade blocks in the European Union (EU), and multiple listing on foreign stock exchanges are significantly associated with multinationals' compliance with IAS.*

This paper examines the characteristics of multinational firms complying with International Accounting Standards (IAS). IAS are not mandatory, yet many multinational firms are voluntarily complying with the standards. The findings of this study should not only enhance our understanding of why firms are motivated to adhere to IAS, but also provides us with the merits of mandating IAS instead of allowing discretionary adoption by firms.

The economic forces of international trade and finance made evident a need to overcome the obstacles created by widely divergent systems of financial reporting and their nationalistic antecedents. Expanding firm activities into foreign markets increases the number of users of its financial statements and disclosures. Users in foreign (host) countries prefer financial statements and disclosures that are comparable to locally prepared statements in terms of accounting standards and scope of disclosure. Financial statements prepared in accordance with local GAAP might have to: (i) be restated in

---

Direct all correspondence to: Samir M. El-Gazzar, Pace University, Lubin School of Business, One Pace Plaza, New York, NY 10038, USA; E-mail: selgazzar@pace.edu. Samir El-Gazzar is also associated with Tanta University in Egypt.

accordance with host country GAAP, as is the case in the United States;<sup>1</sup> (ii) provide for a reconciliation between host country and the local country GAAP; or (iii) adopt a set of accounting rules that are universally acceptable, such as IAS. For example, when Daimler Benz of Germany wanted to obtain equity financing and have their shares traded on the New York Stock Exchange (NYSE), they had to comply with the listing requirements of the Securities and Exchange Commission (SEC), which require compliance with United States GAAP.

In the absence of a universally acceptable set of accounting standards and disclosures, a firm wishing to list its securities on multiple stock exchanges would conceivably produce multiple financial statements to comply with the securities laws and host country GAAP of each respective country in which its shares wished to be listed. This could be a very costly process to the firm and confusing to the financial markets, and may lead to a sub-optimal resource allocation for both the firm and local markets.

To overcome this and similar type of problems of dealing in an international environment, the accountancy bodies of nine countries founded and formed the International Accounting Standards Committee (IASC) in 1973. The IASC formulates and publishes in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance. While not empowered with any enforcement provisions, the members agreed to support the standards and use their best efforts to ensure that published financial statements comply with the standards. They further agree to persuade governments, stock exchanges, and other bodies to support the IASC's standards.

In 1987, a global body of securities regulatory agencies and security exchanges formed the International Organization of Securities Commissions and Similar Organizations (IOSCO) to, among other things, cooperate toward ensuring better regulation of security markets, and establish standards and an effective surveillance of international security transactions. In this regard, they joined the IASC consultative group and agreed that they would enforce compliance with international accounting standards if the number of allowable options included in acceptable IAS standards were reduced and other standards were strengthened.<sup>2</sup>

The IOSCO has promulgated a list of core accounting issues that must be included in IAS in order for IOSCO to endorse the pronouncements for use by issuers in cross-border financing. A "work plan" has been devised by the IASC with scheduled completion of all projects by 1999. The conclusion of this collaboration could result in statements prepared in accordance with IAS being acceptable for most foreign stock exchanges, thereby eliminating the current need to produce multiple financial statements to comply with each country's individualistic requirements (Nottle, 1993). Not only will this eventually reduce the cost and confusion associated with different reporting requirements, it will likely increase substantially the amount of cross-border financing and stock exchange listings.

The efforts of the institutions mentioned above would hopefully result in a uniform solution to the problem in the long run. Meanwhile, multinational firms are currently coping with the problem on a cost-benefits basis. As economies become more and more inter-dependent, compliance with IAS, as a solution, seems to be growing and, thus, warrants investigation since IAS are not mandatory. Understanding the characteristics and

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات